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ABSTRACT

This guide is intended to assist financial aid administrators at postsecondary education institutions in completing verification, the process of checking the accuracy of the information students provide when they apply for financial aid under student financial assistance (SFA) programs administered by the U.S. Department of Education. The first chapter specifies which programs require verification and which do not, how to handle applications with conflicting information, and which applications must be verified, including the 30 percent verification option and verification exclusions. Chapter 2 details required verification items and documentation, including verification of household size, the number of household members enrolled in postsecondary education, adjusted gross income and U.S. income tax paid, and untaxed income and benefits. The third chapter covers completing the verification process. Sections consider options until verification is complete, if the student fails to provide documentation, and if completed verification reveals no errors; verification status codes; options if verification reveals incorrect or outdated information; the tolerance option instead of correcting minor errors; making corrections; and updating. Chapter 4 discusses rules and procedures for recovering funds from overpayments, overawards, referrals, and suspected fraud. Chapter 5 details requirements concerning written policies, information for the applicant, and a system for identifying inconsistencies. A sample copy of the 1998-99 verification worksheet is included. (DB)

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he Verification Guide 1998-99

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U.S. Department of Education
Student Financial Assistance Programs

SFAP Telephone Numbers and Web Addresses

General Information and Application Processing

»» Federal Student Aid Information Center
1-800-433-3243 (4 FED AID) toll free
Hours of operation: 8:00 a.m. to 8:00 p.m. (eastern), Monday through Friday

1-319-337-5665 **toll call**
Hours of operation: 8:00 a.m. to 8:00 p.m. (eastern), Monday through Friday

»» SFA Customer Support Branch
1-800-433-7327 (4 ED SFAP) toll free
Hours of operation: 9:00 a.m. to 5:00 p.m. (eastern), Monday through Friday

»» Ordering FAFSAs
1-800-284-2788 toll free
Hours of operation: Automated system is available 24 hours a day, 7 days a week

»» *FAFSA on the Web*
1-800-801-0576 toll free
http://www.fafsa.ed.gov/
Hours of operation: 8:00 a.m. to 8:00 p.m. (eastern), Monday through Friday

SFAP Software, Systems and Telecommunications

»» Central Processing System (CPS) Customer Service
1-800-330-5947
($12.06 per call, no charge for Direct Loan schools)
cps@ncs.com
(schools may be charged for email, depending on content)
Direct Loan schools: dlts@ncs.com
(no charge)
Hours of operation: 8:00 a.m. to 8:00 p.m. (eastern), Monday through Friday

»» TIV WAN Customer Service
1-800-615-1189 **($12.61 per call, no charge for Direct Loan schools)**
T4wan@ncs.com
Hours of operation: 8:00 a.m. to 11:00 p.m. (eastern), Monday through Friday

»» NSLDS Customer Service
1-800-999-8219 toll free
Hours of operation: 7:00 a.m. to 7:00 p.m. (eastern), Monday through Friday

Pell Grant

»» Pell Grant Institutional Access System Hotline
1-800-474-7268 (4 P GRANT) toll free
Hours of operation: Automated system is available 24 hours a day, 7 days a week

Direct Loans

»» Direct Loan Custom/Combo School Technical Support
1-800-756-4220 toll free
dlts@ncs.com
Hours of operation: 8:00 a.m. to 5:00 p.m. (eastern), Monday through Friday

»» Direct Loan Origination Center (LOC) School Relations
1-800-848-0978 toll free

»» Applicant Services
1-800-557-7394 toll free
Hours of operation: 8:00 a.m. to 8:00 p.m. (eastern), Monday through Friday

»» Direct Loan Borrower Services (Utica) CDSI/AFSA
1-800-848-0979 toll free
Hours of operation: 8:00 a.m. to 8:30 p.m. (eastern), Monday through Friday

The Verification Guide, 1998-99

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1 BAS REQUIREMEN

This guide will assist financial aid administrators in completing verification, the process of checking the accuracy of the information students provide when they apply for aid under the student financial assistance (SFA) programs administered by the U.S. Department of Education (ED). Verification is *required* only for certain applicants, but you may verify the application information of any student who applies for federal student aid.

HEA of 1965, as amended

34 CFR Part 668, Subpart E

The verification procedures are governed by the Higher Education Act of 1965, as amended, and Subpart E of 34 CFR Part 668, *Verification of Student Aid Applicant Information*. Amended verification regulations were published in the *Federal Register* on April 28, 1994, November 29, 1994, and June 30, 1995.

INTRODUCTION

The verification requirements explained in this guide apply to all applicants for federal student aid under the following SFA programs:

Programs covered by verification requirements

- The Federal Pell Grant Program
- The William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program[1]
- The Campus-Based Programs
  - Federal Supplemental Educational Opportunity Grants (FSEOG)
  - Federal Perkins Loans
  - Federal Work-Study (FWS)

[1] For both the Direct Loan and FFEL programs, verification is not required for unsubsidized student loans or for PLUS Loans. (However, please note that a student *cannot* avoid the verification process by choosing to borrow an unsubsidized loan instead of a subsidized loan. If an applicant selected for verification attempts to do this, you are to continue the verification process anyway.) Also, verification is not required for Federal Stafford Loans received for study at eligible foreign schools.

Verification is not required for (1) the State Student Incentive Grant (SSIG) Program, unless the school is certain that an applicant's state grant contains federal funds, or (2) the Robert C. Byrd Honors Scholarship Program. Note that the Paul Douglas Teacher Scholarship Program has not been funded for 1998-99.

Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to SFA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including verification requirements, as prescribed by regulations. The QA Program methodology provides QA schools with an alternative management approach for developing and refining their own systems for verifying institutional and student financial aid application data. Participating schools should refer to the *QA Workbook* for verification exemptions. **Note that all current requirements for disbursement, updating, and deadlines—and the consequences for failing to provide requested documents—still apply to QA schools.**

Verification Is Required For...

- **The Federal Pell Grant Program**
- **The Direct Loan Program and The FFEL Program***
- **The Campus-Based Programs**

***except for unsubsidized loans, PLUS Loans, and loans awarded for study at an eligible foreign school**

Verification Is NOT Required For...

- **The SSIG Program***
- **Unsubsidized and PLUS loans under the Direct Loan or FFEL programs**
- **The Robert C. Byrd Honors Scholarship Program**

***unless the school knows or has reason to believe the applicant's state grant contains federal funds**

APPLICATIONS WITH CONFLICTING INFORMATION

The General Provisions regulations require your school to develop an adequate system to ensure the consistency of the information related to a student's application for federal student aid, regardless of the source of that information. You are responsible for reconciling all information received, with one exception: If the applicant dies during the award year, you are not required to resolve conflicting data.

34 CFR 668.16(f)

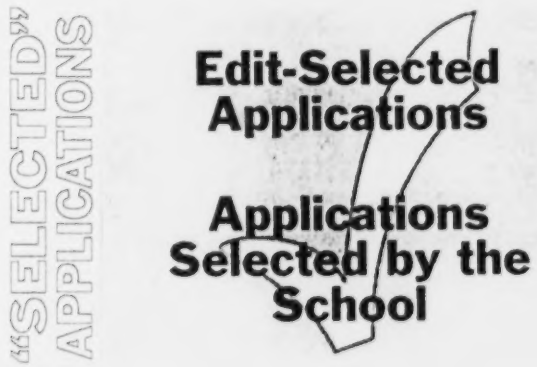
If you have conflicting information for an applicant or have any reason to believe his or her application information is incorrect, you *must* resolve such discrepancies before disbursing federal student aid. Further, if you discover discrepancies after disbursing federal student aid, you must reconcile the conflicting information and require the student to repay aid received in excess of his or her eligibility unless the student is no longer enrolled for the award year. (See Chapter 4 of

Must resolve conflicting information before disbursing federal student aid

this guide, "Overpayments, Overawards, Referrals, & Suspected Fraud.") **The requirement to resolve conflicting information is separate and distinct from verification requirements/procedures and supersedes all verification rules: You must resolve all conflicts whether or not the student's application was selected for verification.**

APPLICATIONS THAT MUST BE VERIFIED

When verification is required for an application, that application is said to have been "selected" for verification. Applications are selected either by the Central Processing System (CPS) or by the school. (The student's output document will indicate if the CPS selected the application for verification, as explained later in this section.)



Under certain circumstances, a selected application may be excluded from required verification (see the "30% Verification Option and Verification Exclusions" sections later in this chapter).

Edit-Selected Applications

Students apply for ED's student aid programs by completing a *Free Application for Federal Student Aid* (FAFSA), either electronically or on paper. Under certain conditions, students who applied for federal student aid in the previous award year will not need to complete an entirely new FAFSA. Instead, they can use the *Renewal Free Application for Federal Student Aid* (Renewal FAFSA), which contains their previous-year data and requires only that they change or add information as needed. (For more information about the Renewal FAFSA and the other application options listed next, see the 1998-99 *Counselor's Handbook for Postsecondary Schools*.)

Students have several options for applying electronically, using either the FAFSA or the Renewal FAFSA:

FAFSA on the Web is a new filing option

- Δ *FAFSA on the Web* (or *Renewal FAFSA on the Web*) allows a student to complete an application and submit it directly to the CPS over the Internet.

- Δ *FAFSA Express* allows a student to complete and submit an application without Internet access, using a PC and modem.

- Δ Electronic Data Exchange (EDE), through participating schools, allows a student to submit an application with the help of his or her financial aid administrator. The application is transmitted to the CPS through the Department's Title IV Wide Area Network (TIV-WAN).

To apply using a paper FAFSA, a student can download the FAFSA in portable document format (PDF) from the Department's website <www.ed.gov/offices/OPE/express.html> and print it, complete it, and mail it. A student can also obtain a Department-printed paper FAFSA from participating postsecondary schools, local high schools or libraries, or can order one toll-free from the Federal Student Aid Information Center (FSAIC) at 1-800-433-3243 (1-800-4FED-AID).

Students who apply electronically transmit their application data directly to the CPS. A student applying with a paper FAFSA, however, sends the FAFSA to the FAFSA processor. The FAFSA processor will scan in the paper FAFSA, and as a double-check will also manually enter the FAFSA data, then compare the two sets of data to identify and correct input errors. Then, the FAFSA processor will transmit the student's application data to the CPS.

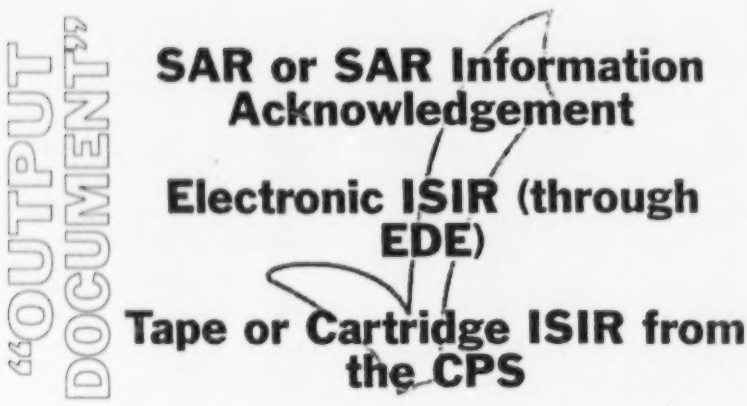
Processing and edit checks

Regardless of how a student files the FAFSA, the CPS always processes it in the same way, and the verification procedures are also the same. The CPS checks the application, using several editing criteria designed to detect possible inconsistencies and mistakes. For instance, if a dependent student reported the parents' marital status as married but also reported the household size as "2," the CPS edit checks would catch the inconsistency, and will alert you and the student to the inconsistency. During processing, the CPS flags certain applications for verification.

Database matches

The CPS also "matches" the application data to several databases (including the National Student Loan Data System [NSLDS], a comprehensive database containing selected federal financial aid histories of SFA fund recipients) to flag certain applicants, such as those who have defaulted on federal student loans or who owe repayments on federal grants.

Lastly, using a formula prescribed by law, the CPS also calculates the student's Expected Family Contribution (EFC), which determines that student's eligibility for federal student aid. The CPS reports the EFC and other results of application processing in an "output document," which also repeats the information the student provided on the FAFSA. The format and transmission of the output document will vary, depending upon how the student submitted the FAFSA.


"OUTPUT DOCUMENT"
SAR or SAR Information Acknowledgement
Electronic ISIR (through EDE)
Tape or Cartridge ISIR from the CPS

Most students will receive a paper output document called a *Student Aid Report* (SAR), within four weeks of filing. However, students who file electronically through their school, using the EDE system, will receive a different paper output document: the *SAR Information Acknowledgement*. Schools designated by the student (in Section G of the FAFSA) will receive an output document for the student, regardless of whether the student filed by paper or electronically. The output document the school receives is called an *Institutional Student Information Record* (ISIR). Schools can receive the ISIR either electronically (through EDE) or on tape or cartridge.

The output document is useful and important in many ways. First, it shows what the student reported on the application, allowing the student and the school to double-check that information for errors or changes. The output document also reports the student's EFC, and it indicates whether the CPS has selected a student's application for verification. For example, on the SAR (or *SAR Information Acknowledgement*), the CPS prints an asterisk (*) to the right of the EFC and includes, in the comments portion of the SAR, verification instructions for the student. On the ISIR, the CPS indicates verification selection with a specified code.

On the SAR or ISIR, the verification selection codes (A-C 1-32, 99) are numbered in order of importance. If you are verifying no more than 30 percent of the total number of your school's federal student aid applicants, you might want to select those applications with higher priority verification numbers. (See the "30% Verification Option" discussion in the following section.) For example, reasons 2, 5, 8, and 10 have greater significance than reasons 13, 15, 19, and 24. **Note that selecting applications with higher priority numbers is a suggestion, not a requirement.**

The output document also indicates any questionable results from the database matches described above. For instance, if a student has defaulted on a federal student loan, the student's output document will note this. The student may still be eligible for federal aid, but you must resolve the questions before delivering any funds to the student.

School-Selected Applications

Your school may also select applications for verification. For applications your school selects, you have full discretion as to which items must be verified. However, all other verification requirements (such as deadlines and allowable interim disbursement rules, etc.) apply equally to all applicants who are being verified, regardless of whether the CPS or the school selected the application for verification.

For school-selected applications, school chooses which items will be verified

30% VERIFICATION OPTION

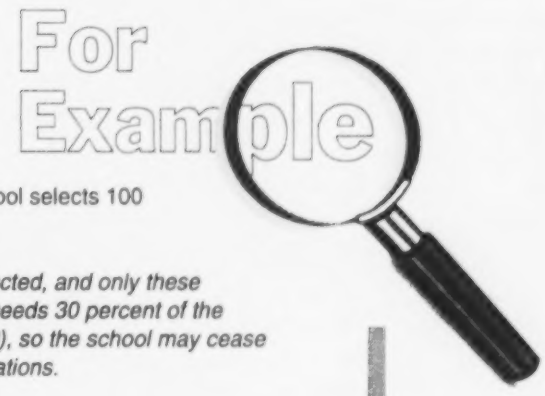
Generally, you must verify all applications the CPS selects for verification; however, ED does not require a school to verify more than 30 percent of its total number of applicants for federal student assistance. If more than 30 percent of your applicants have been selected for verification, you may *choose* to verify all the selected applications, but ED does not require it. **Note: Applications your school selects and applications with conflicting information (see page 2) do not count toward the 30-percent level.** If the total number of selected applications is less than 30 percent of your total number of applicants for federal student aid, you **must verify all** selected applications. The 30% Verification Option is better explained with a few examples, shown in the next example.

Defining "applicant"

Many financial aid administrators have requested interpretation from ED regarding the definitions of "applicant" and "applicant pool." However, ED does not define these terms. Each school must develop its definitions and apply them consistently. An applicant may be defined as any student who applies for federal financial aid or, more narrowly, as a student who is eligible to receive an award. Further, schools could define the total number of applicants for federal student assistance as the total number of applications received (regardless of whether the students are enrolled), as the total number of applications received from enrolled students, or as the total number of applications received from enrolled students who are eligible to receive an award. When the school uses a narrow pool and selects 30 percent, the students the school verifies must come from the pool designated and not from a broader pool.

Schools must establish and consistently apply standard policy

Schools also must develop their own policies for determining the number of applications that constitutes 30 percent of their school's total applications. Schools must consistently adhere to and apply these policies, ensuring that selected applications are properly verified.



EXAMPLE ONE

The Feld Institute has 1,000 applicants for federal student assistance. During processing, the CPS selected 475 of those applications for verification. The school selects 100 other applications, based on its own criteria.

575 applications were selected, but only 475 were edit-selected, and only these count toward the 30 percent. However, this number still exceeds 30 percent of the school's total applicants for federal student assistance (300), so the school may cease verifying once it has verified 300 of the edit-selected applications.

EXAMPLE TWO

Bryant Tech has 1,000 applicants for federal student assistance. During processing, the CPS selected 289 of those applications for verification.

The school must verify all 289 because that number does not exceed 30 percent of the institution's total applicants for federal student assistance. (The school is not required to verify any additional applications; the 30% Verification Option is ***not*** *a quota.)*

EXAMPLE THREE

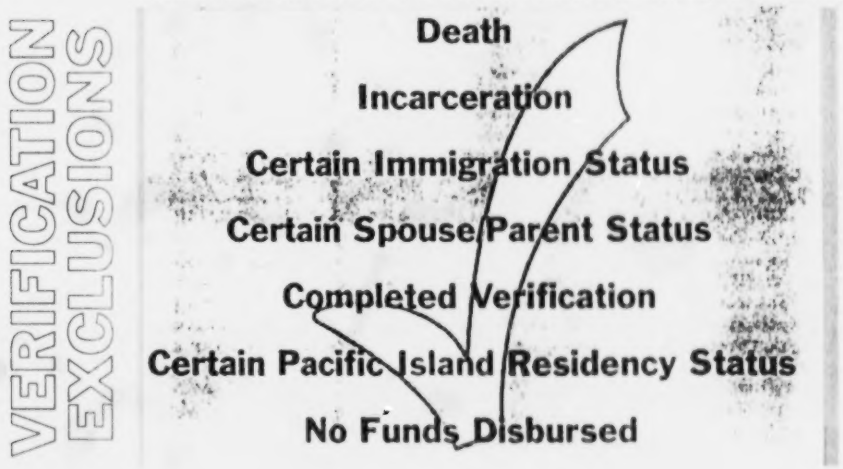
Marley College has 1,000 applicants for federal student assistance. During processing, the CPS selected 300 of those applications for verification. Also, the school identified 40 additional applications as having conflicting information.

300 applications were selected. Additionally, the school must reconcile the conflicting information of 40 other students. (Because the resolution of conflicting data is separate from verification, these 40 applications do not count toward the 30-percent level.) The school must verify all 300 applications, as this number does not exceed 30 percent of its total applicants for federal student assistance. The school must also resolve each of the 40 cases of conflicting data.

VERIFICATION EXCLUSIONS

Due to certain unusual circumstances, a selected application may be exempt from some or all of the verification requirements (see below). Except in the case of the applicant's death, however, none of these verification exclusions excuses you from the requirement to resolve conflicting data, as discussed earlier.

Under any of the following circumstances, a student is excluded from some or all of the verification requirements.



Death—the applicant dies before completing verification.

If you make an interim disbursement during the verification process, and the applicant dies before verification is completed, you do not have to continue verification to justify your first disbursement. In such a case, you *cannot* make any additional disbursements to any of the applicant's beneficiaries, except for FWS funds already earned. Also, you cannot originate a Direct Loan, certify a Federal Stafford Loan, or deliver proceeds from either one for the applicant's beneficiaries.

34 CFR 668.60(e)

Incarceration

A selected application does not have to be verified if the applicant is in jail or prison at the time of verification.

Immigration Status—the applicant is a recent immigrant

For the 1998-99 award year, a selected application does not have to be verified if the applicant is an immigrant who arrived in the United States during calendar years 1998 or 1999.

Certain Spouse or Parent Status—spouse or parent(s) unavailable

You are not required to verify spouse and/or parent information (or to obtain the appropriate signature[s] for verification purposes) if any of the following conditions apply:

- Δ The spouse or parent is deceased.
- Δ The spouse or parent is mentally or physically incapacitated.
- Δ The spouse or parent is residing in a country other than the United States and cannot be contacted by normal means.
- Δ The spouse or parent cannot be located because the address is unknown, and the applicant cannot obtain it.

You should document the basis for this exclusion in the student's file. **Note that this exclusion does not affect any other aspect of required verification;** the selected application must still be verified according to all other requirements. Further, if only one parent of a dependent student meets any of these conditions, **the other parent is still subject to all verification requirements.**

Completed Verification—the application was verified at a previously attended school

Application verified at a previous school

You are not required to verify the selected application of a student who completed verification for the current award year at another school before transferring to your school. To document a student's eligibility for this exclusion, you must obtain a letter from the school that completed the verification. The letter must include

- Δ a statement that the student's application data have been verified,
- Δ the transaction number of the verified application, *and*
- Δ if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see Chapter 3 of this guide).

A financial aid transcript alone is *not* acceptable documentation for allowing an applicant this exclusion.

Pacific Island Residency Status—the applicant is a resident/citizen of the former Trust Territories of the Pacific Islands

You are not required to verify the selected application of a student who is either

- Δ a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands (to qualify for this exclusion, a dependent student's parents must also be legal residents of one of these former territories); or

- Δ a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau (to qualify for this exclusion, a dependent student's parents must also be citizens of one of these former territories).

To document the basis for this exclusion, you should note the permanent mailing address(es) in the student's file.

No Funds Disbursed—applicant does not receive student aid

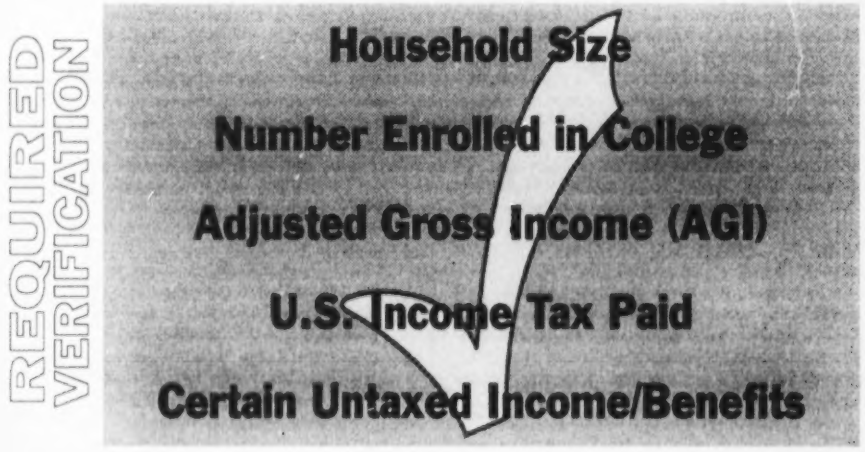
If an applicant will not receive federal student aid for reasons other than his or her failure to complete verification, you are not required to complete verification. This category includes students ineligible for federal student aid or those who withdraw without receiving aid.

2

REQUIRED VERIFICATION ITEMS AND ACCEPTABLE DOCUMENTATION

REQUIRED VERIFICATION ITEMS

For applications edit-selected by the CPS for verification, you must verify five major data elements as shown below:



Discretionary verification

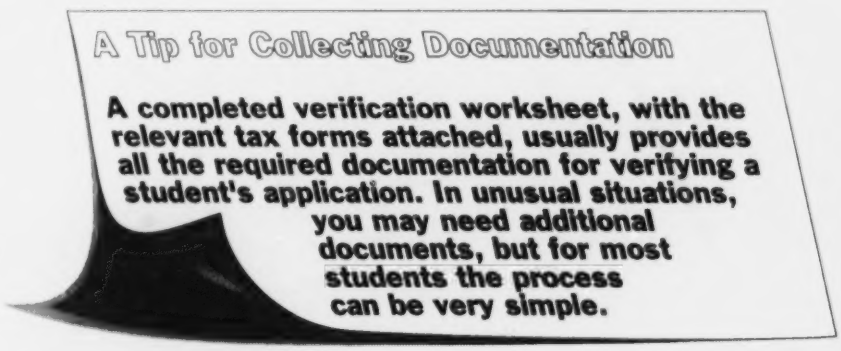
In addition to verifying the required application data items for CPS-selected applicants, you may choose to verify any other application item(s), requiring any reasonable documentation, in accordance with consistently applied institutional policies and procedures. You have full discretion as to which applicants must provide documentation for any additional data elements and what constitutes acceptable documentation.

REQUIRED DOCUMENTATION

For each required verification item, specific documentation is required, and you have the authority to require students to provide such documentation. As an aid in completing the verification process, ED has developed verification worksheets specifically designed to obtain most of the documentation needed. You may reproduce the 1998-99 worksheets without limitation, and they are available through a variety of sources: in Action Letter #3 (GEN-97-13, November 1997); through EDExpress; from the SFA BBS; from ED's Information for Financial Aid Professionals (IFAP) website <ifap.ed.gov>; and on pages 13 through 16 of this guide.

ED's verification worksheets

When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents (discussed later), usually you will have enough data to complete the verification process. Using a verification worksheet, therefore, simplifies the task of collecting and examining a student's documentation.


A Tip for Collecting Documentation
A completed verification worksheet, with the relevant tax forms attached, usually provides all the required documentation for verifying a student's application. In unusual situations, you may need additional documents, but for most students the process can be very simple.

U.S. Department of Education

1998-99 Verification Worksheet

Federal Student Aid Programs

FORM APPROVED
OMB NO. 1840-0132
EXP. DATE 12/31/99

DEPENDENT STUDENT

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 1997 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you may need to send in corrections on your Student Aid Report (SAR), or your school may send corrections electronically, to have your information reprocessed.

Try to complete verification as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet—you and at least one parent.
4. Take the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on the documents. You may need to make corrections on your SAR and send it back to the application processor.

Your school must review the requested information, under the financial aid program rules (CFR Title 34, Part 668).

A. Student Information

Last name _____ First name _____ M.I. _____

Social security number _____

Address (include apt. no.) _____

Date of birth _____

City _____ State _____ ZIP code _____

Phone number (include area code) _____

B. Family Information

List the people that your parent(s) will support between July 1, 1998 and June 30, 1999. Include:

- yourself
- your parent(s)
- your parent(s)' dependent children (if your parent(s) provide more than half support, or if they would be required to give parental information when applying for Federal student aid.)

Include other people as part of your family only if:

- they lived with your parent(s) and got more than half their support from your parent(s) at the time you completed your student aid application
  AND
- they will continue to get more than half their support from July 1, 1998 through June 30, 1999.

Write the names of all family members. Also write in the name of the college for any family member who will be attending college at least half-time between July 1, 1998 and June 30, 1999, and will be enrolled in a degree or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Janet Jones	*51*	*Mother*	*Central University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1840-0132. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: U.S. Department of Education, Washington, DC 20202-4651. If you have comments or concerns regarding the status of your individual submission of this form, write directly to: Application and Pell Processing Systems Division, U.S. Department of Education, 600 Independence Avenue, S.W., Washington, DC 20202-5453.

C. Student's Tax Forms and Income Information — Dependent

1. For non-tax filers and all tax filers (includes the 1997 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return). If you did not keep a copy of the tax return, request a RTFTP printout or Letter 1722 from the Internal Revenue Service or a copy from your tax preparer.

   ☐ Check and attach signed tax return.
   ☐ Check and complete: signed tax return will be mailed to the school by _____(date).
   ☐ Check here if you will not file and are not required to file a 1997 U.S. Income Tax Return.

2. Amounts received for child support and other untaxed income.

Sources of untaxed income	Amount

3. If you did not file and are not required to file a 1997 Federal income tax return, list below your employer(s) and any income received in 1997.

Sources of income (Use the W-2 form or other earnings statements)	Amount

D. Parent(s)' Tax Forms and Income Information

1. For non-tax filers and all tax filers (includes the 1997 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return). If your parent(s) did not keep a copy of the tax return, request an RTFTP printout or Letter 1722 from the Internal Revenue Service or a copy from the tax preparer.

   ☐ Check and attach signed tax return.
   ☐ Check and complete: signed tax return will be mailed to the school by _____(date).
   ☐ Check here if your parent(s) will not file and are not required to file a 1997 U.S. Income Tax Return.

2. Amounts received for child support and other untaxed income.

Sources of untaxed income	Amount

3. If your parent(s) did not file and are not required to file a 1997 Federal income tax return, list below your parent(s)' employer(s) and any income received in 1997.

Sources of income (Use the W-2 form or other earnings statements)	Amount

E. Sign this Worksheet

By signing this worksheet, we certify that all the information reported to qualify for Federal student aid is complete and correct. At least one parent must sign.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

Student _____ Date _____

Father/Stepfather _____ Date _____

Mother/Stepmother _____ Date _____

Do not mail this worksheet to your application processor. Take it to your Financial Aid Administrator. Don't forget your tax forms.

U.S. Department of Education

1998-99 Verification Worksheet

Federal Student Aid Programs

FORM APPROVED
OMB NO. 1840-0132
EXP. DATE 12/31/99

INDEPENDENT STUDENT

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 1997 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you may need to send in corrections on your Student Aid Report (SAR), or your school may send corrections electronically, to have your information reprocessed.

Try to complete verification as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your (and your spouse's) financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet.
4. Take the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on the documents. You may need to make corrections on yourSAR and send it back to the application processor.

Your school must review the requested information, under the financial aid program rules (CFR Title 34, Part 668).

A. Student Information

Last name | First name | M.I. | Social security number

Address (include apt. no.) | Date of birth

City | State | ZIP code | Phone number (include area code)

B. Family Information

List the people that you (and your spouse) will support between July 1, 1998 and June 30, 1999. Include:

- yourself
- your spouse
- your dependent children (if you provide more than half of their support).

Include other people as part of your family only if:

- they lived with you and got more than half their support from you (or your spouse) at the time you completed your student aid application
  AND
- they will continue to get more than half their support from you from July 1, 1998 through June 30, 1999.

Write the names of all family members. Also write in the name of the college for any family member who will be attending college at least half-time between July 1, 1998 and June 30, 1999, and will be enrolled in a degree or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones	*24*	*Wife*	*City University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1840-0132. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: U.S. Department of Education, Washington, DC 20202-4651. If you have comments or concerns regarding the status of your individual submission of this form, write directly to: Application and Pell Processing Systems Division, U.S. Department of Education, 600 Independence Avenue, S.W., Washington, DC 20202-5453.

C. Student's Tax Forms and Income Information — Independent

1. **For non-tax filers and all tax filers (includes the 1997 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return). If you did not keep a copy of the tax return, request an RTFTP printout or Letter 1722 from the Internal Revenue Service or a copy from your tax preparer.**

   ☐ Check and attach signed tax return.

   ☐ Check and complete: signed tax return will be mailed to the school by _____(date).

   ☐ Check here if you will not file and are not required to file a 1997 U.S. Income Tax Return.

2. Amounts received for child support and other untaxed income.

Sources of untaxed income	Amount

3. If you did not file and are not required to file a 1997 Federal income tax return, list below your employer(s) and any income received in 1997.

Sources of income (Use the W-2 form or other earnings statements)	Amount

D. Spouse's Tax Forms and Income Information (If student is married)

1. **For non-tax filers and all tax filers (includes the 1997 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return). If your spouse did not keep a copy of the tax return, request one from the Internal Revenue Service or from the tax preparer.**

   ☐ Check and attach signed tax return.

   ☐ Check and complete: signed tax return will be mailed to the school by _____(date).

   ☐ Check here if you will not file and are not required to file a 1997 U.S. Income Tax Return.

2. Amounts received for child support and other untaxed income.

Sources of untaxed income	Amount

3. If your spouse did not file and is not required to file a 1997 Federal income tax return, list below your spouse's employer(s) and any income received in 1997.

Sources of income (Use the W-2 form or other earnings statements)	Amount

E. Sign this Worksheet

By signing this worksheet, I (we) certify that all the information reported to qualify for Federal student aid is complete and correct. If married, spouse's signature is optional.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

_____
Student Date

_____
Spouse Date

Do not mail this worksheet to your application processor. Take it to your Financial Aid Administrator. Don't forget your tax forms.

However, use of the federal worksheets is not required. You may use a worksheet of your own design, or no worksheet at all; you may require other documentation in addition to, or instead of, a completed verification worksheet. The chart below shows other forms of acceptable documentation for each required verification item. Later in this chapter, these other documents are discussed in detail.

ACCEPTABLE DOCUMENTATION

	Verification Worksheet & Tax Return(s)	Other Documentation in lieu of Worksheet or Tax Return (see the text for details)
Household Size	✓	Signed Statement
Number Enrolled	✓	Signed Statement and/or Institutional Certification
AGI & Taxes Paid	✓	IRS Letter 1722, RTFTP, Form W-2, Form 4868, and/or Signed Statement
Untaxed Income & Benefits	✓	Official Agency Documentation and/or Signed Statement

Using a Verification Worksheet

Schools that require worksheets must supply them

If you require your students to complete verification worksheets, you must provide the worksheets to your students. Upon completing the appropriate worksheet and attaching a copy of the relevant income tax returns or alternative documents, students should submit the documents to the school, not to ED or to the FAFSA processor through which they applied. The school should make sure that all required worksheet sections are **completed and appropriately signed** and that the relevant tax returns or alternative documents are attached. **As explained later in this section, copies (such as photocopies, faxes, digital images, etc.) of worksheets, tax returns, or other documentation are acceptable.** Unless specifically noted in this guide, an original signature—that is, a handwritten pen-and-ink signature that has not been copied—is *not* required. After checking the documentation against the student's application data, you may either disburse the student's award or make the necessary corrections and updates. (See Chapter 3 of this guide, "Completing The Verification Process.")

Copied signatures and documents are acceptable

VERIFYING HOUSEHOLD SIZE

Signed statement acceptable

As explained below, an applicant's household size generally includes any persons who are dependents of, or who receive more than half of their support from, the applicant's household. If the applicant completed a verification worksheet, no further documentation for this item is required. However, in lieu of the worksheet, you may accept a statement signed by the applicant (and at least one of the applicant's parents, for dependent students), listing the names of the household members, their relationships to the applicant, and their ages.

For Dependent Applicants

For federal student aid purposes, the following persons may be included in the household size of the dependent applicant:

- the **applicant**;
- the **applicant's parents,** excluding a parent not living in the household as a result of death, separation, or divorce;
- the **applicant's parents' other children,**[2] if they received or will receive **more than one-half** of their support[3] from the applicant's parents between July 1, 1998 and June 30, 1999;
- the **applicant's children,** if they received or will receive **more than one-half** of their support from the applicant's parents between July 1, 1998 and June 30, 1999;
- the **applicant's parents' unborn child and/or the applicant's unborn child,** if that child will be born before or in the award year, and the applicant's parents will provide **more than one-half** of the child's support from the projected date of birth to the award year's end; and
- **other persons,** if they live with, and receive **more than one-half** of their support from, the applicant's parents at the time of application and will continue to receive that support from July 1, 1998 through June 30, 1999.

[2] If another child would be considered dependent for the purposes of applying for federal student aid, he or she can be included in household size whether or not the applicant's parents provide more than half of that child's support and regardless of whether the child actually resides in the household. (The child does not actually have to be a student or actually apply for federal student aid to meet this exception.)

[3] Support includes money, gifts, loans, housing, food, clothing, car payments or expenses, medical and dental care, and payment of college costs.

For Independent Applicants

The following persons may be included in the household size of the independent applicant:

- Δ the **applicant;**
- Δ the **applicant's spouse,** excluding a spouse not living in the household as a result of death, separation, or divorce;
- Δ the **applicant's dependent children,** if they received or will receive **more than one-half** of their support from the applicant's household between July 1, 1998 and June 30, 1999;
- Δ the **applicant's and/or spouse's unborn child,** if that child will be born before or in the award year, and the applicant and/or spouse will provide **more than one-half** of the child's support from the projected date of birth to the award year's end; and
- Δ **other persons,** if they live with the applicant and receive **more than half** their support from the applicant's household at time of application and will continue to receive that support from July 1, 1998 through June 30, 1999.

When Verification of Household Size is Not Required

You do not have to verify household size in the following situations:

- Δ The student's valid federal output document (SAR, *SAR Information Acknowledgement*, or ISIR—see page 5) is received within 90 days of the date the application was signed.
- Δ The household size is the same as the number reported for, and verified in, the previous award year.
- Δ **For dependent applicants**: The parents are married, and the household size reported on the output document is three; or the parent is single, divorced, separated, or widowed, and the household size reported is two.
- Δ **For independent applicants**: The applicant is married, and the household size reported is two; or the applicant is single, divorced, separated, or widowed, and the household size reported is one.

VERIFYING NUMBER ENROLLED IN POSTSECONDARY EDUCATION

The applicant should always be included in this number, but other individuals can be included **only** if they are counted in the household size and will be attending a postsecondary educational institution **at least half time** (6 credit hours per term for at least one term or 12 clock hours per week) between July 1, 1998 and June 30, 1999. These individuals must also be working toward a degree or certificate leading to a recognized educational credential at an eligible Title IV school (see the 1998-99 *Federal Student Financial Aid Handbook*, Chapter 3, for more on institutional eligibility).

If the applicant completes a verification worksheet, no further documentation for this item is required. However, in lieu of the worksheet, you must require a **statement signed** by the applicant (and at least one of the applicant's parents, for dependent students). The statement should include the names and ages of those enrolled and the names of the institutions they plan to attend. If you still have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and institutions listed. (If a student in question has not yet registered, documentation from the institution may not be available.)

Signed statement acceptable

Note that the statement to verify the number enrolled in a postsecondary education institution may be combined with the household size statement.

When Verifying Number Enrolled in Postsecondary Education is Not Required

You do not have to verify the number enrolled in a postsecondary institution in any of the following instances:

- Δ The student's valid federal output document (SAR, *SAR Information Acknowledgement*, or ISIR—see page 5) is received within 90 days of the date the application was signed.
- Δ The reported number enrolled is one (the applicant only).
- Δ The family members the applicant lists are enrolled at least half time at your school, and you have confirmed their enrollment through your own records.

VERIFYING AGI AND U.S. INCOME TAX PAID

Most often you can verify AGI and U.S. Income Tax Paid by using a copy of the signed U.S. income tax return.[4] U.S. tax filers can file their taxes electronically (through e-file), over the telephone (through TeleFile), or using traditional paper tax forms. As explained later in this section, the tax documents needed for verification may vary depending on the filing method used by the applicant, spouse, and/or parents. All documentation must contain the required signatures (or stamp or other official validations) and must contain all data necessary for verification. If all necessary data are not present, the student must provide additional documentation, as described in this section.

To verify AGI and taxes paid, you must first identify all the persons whose financial data was reported on the FAFSA, and which tax returns, if any, they filed. You must check the tax returns for all persons whose financial data was reported on the FAFSA: the applicant, the applicant's spouse (if the applicant is married), or the applicant's parents or legal guardian (if the applicant is a dependent student). In Section E of the FAFSA, each of these individuals had to indicate which tax return they filed or that they were not required to file a tax return at all. During the verification process, you may encounter individuals who filed a 1040, even though they indicated on the FAFSA that they filed a 1040EZ or 1040A. (For the purpose of the Simplified Needs Analysis, the FAFSA instructs individuals who were **eligible to file** a 1040EZ or 1040A to indicate that they did file such a return, even if they really filed a 1040.)

FAFSA may indicate a tax form other than the one actually filed

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the applicant's tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see page 27). If the figures don't match, a correction may be needed, as discussed in Chapter 3 of this guide. For more information on how specific types and special categories of income should be reported on the FAFSA, see the 1998-99 *Counselor's Handbook for Postsecondary Schools.*

[4] One of the following income tax forms is considered an alternative to a U.S. Form 1040A or 1040EZ: the income tax return required by the tax code of the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information. Amounts are already reported in U.S. dollars and must be compared to the U.S. tax return line items in order to be verified.

When verifying application information against tax returns, you may find the following chart useful. The chart is provided as a reference only for the most commonly reported items; it is not an inclusive list of all the items you must check on a tax return.

Line Items

	1040 and 1040PC	1040A	1040EZ
AGI	32	16	4
Income Tax Paid	46	25	10
Deductible IRA/Keogh	23 and 28	15	
Earned Income Credit	56a	29c	8a
Tax-Exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	10a minus 10b and 11a minus 11b	

Acceptable Copies

Copy of tax return is acceptable

For verification purposes, you may accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. **If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy.**

In lieu of a copy of the original return, you may accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature. **Note: Signatures must be collected at the time of verification, during the applicable award year. Signatures may not be collected after the verification deadline for that award year.**

Tax return can be signed (or stamped) by the preparer

In lieu of a return the filer(s) has signed, you may also accept a paper return the tax preparer has signed or officially stamped. (Documentation from electronic returns must be signed by the filer, as explained in the following section.) In some cases, you can waive the requirement for spouse and/or parent information and signatures (see the "Exclusions from Verification" section in the previous chapter).

Form 1040PC acceptable

1040PC. This feature, built into many commercial tax preparation software programs, allows an individual to use a PC to enter his or her individual income and tax information. The software calculates the taxes and prints a return in a three-column "answer sheet" format. The applicant mails or electronically files the return. **The 1040PC return is acceptable documentation for verification purposes**, as long as it is signed by at least one of the tax filer(s). However, the 1040PC return does not contain *every* line item; rather, it shows only the data the tax filer provided. For example, if Item 8a, "Taxable interest income," does not appear on the 1040PC return, that means the applicant had no taxable interest income. (Note that when an electronic tax return is filed, the filer also submits IRS Form 8453. Form 8453 **is not suitable** for performing verification.)

IRS TeleFile Tax Record acceptable

TeleFile. TeleFile (formerly called 1040TEL) allows 1040EZ filers to file a tax return over the phone. Filers complete a TeleFile Tax Record, call an IRS number, and enter the information over the telephone. **The TeleFile Tax Record is acceptable documentation for verification purposes**, provided it contains the filer's six-digit **IRS confirmation number** in Line M and is signed by the filer. (There is no signature line; have the filer sign at the bottom.)

Nonfilers. An AGI figure will not be available for individuals who are not required to file a tax return. Such a person would instead report on the FAFSA income earned from work, which includes any income reported on the individual's forms W-2 *plus* any other earnings from work not reported on those forms. (Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.)

A properly completed verification worksheet sufficiently documents income earned from work. No further documentation is required. However, in lieu of a verification worksheet, you must require from each nonfiler a **signed statement** certifying his or her nonfiler status and listing the sources and amounts of income. (You can also accept copies of the forms W-2.)

ED does not require financial aid professionals to have special knowledge or expertise regarding the U.S. tax code. If a person whose data was required on the FAFSA submits to you a signed statement claiming non-tax filer status, and you have reason to believe that person would have been required to file a U.S. tax

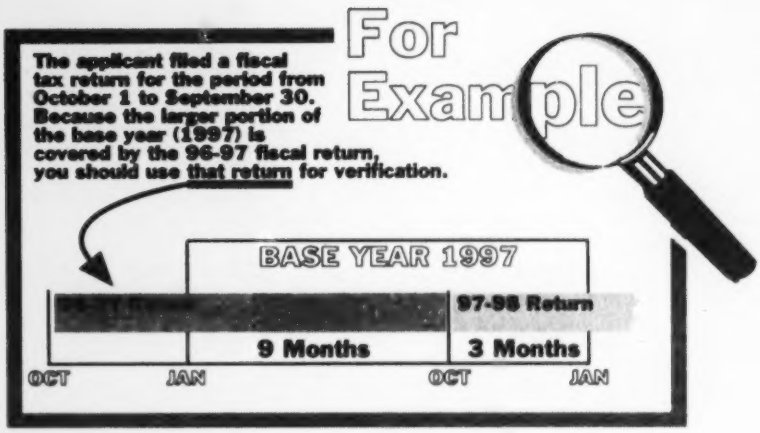
return, this constitutes conflicting information and must be resolved. (For more information on conflicting information, see Chapter 1 of this guide.) For example, in such a case, you might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the individual's claim to non-filer status. Remember, conflicting information *must* be resolved before you can disburse federal student aid.

Non-filer status claim may constitute conflicting information and must be resolved

Filing Extensions. If any of the persons required to report information on the FAFSA will file but had not filed a tax return at the time of application, they should have used Worksheet #1 in the FAFSA instructions to calculate an estimated AGI. At the time of verification, the necessary tax return(s) should have been filed and can be used for verification. If the return(s) has not been filed by then and a filing extension was granted by the IRS, you may accept the following alternative documentation:

- Δ copies of the relevant forms W-2, *and*
- Δ one of the following items as proof that the IRS has granted a filing extension:
  - »a copy of IRS Form 4868—*Application for Automatic Extension of Time to File U.S. Individual Income Tax Return* (automatically grants the taxpayer a four-month extension beyond the April 15 deadline), or
  - »a copy of the IRS approval of an extension beyond the automatic four-month extension.

In addition to supplying the above documentation, the applicant must submit a copy of the tax return(s) when filed. When you receive the completed tax return(s), you must use the tax return(s) to re-verify the required data. **An applicant who fails to submit a copy of the filed tax return(s) or alternative document(s) before the documentation deadlines is ineligible to receive federal student aid and is required to repay any aid disbursed.** Regardless of whether the applicant repays the aid, the school is liable for the interim disbursement (see page 33).


For Example
The applicant filed a fiscal tax return for the period from October 1 to September 30. Because the larger portion of the base year (1997) is covered by the 96-97 fiscal return, you should use that return for verification.
BASE YEAR 1997
97-98 Return
9 Months
3 Months
OCT
JAN
OCT
JAN

Fiscal Year Returns. For a fiscal year tax return (as opposed to a return for the calendar year), the applicant should report the AGI and U.S. Income Tax Paid from the fiscal year tax return that includes the greater number of months in the base year. Accordingly, you should use the tax return from that fiscal year for verification purposes.

1040NR for nonresidents

Nonresident Filers. 1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. **The 1040NR is acceptable documentation for verification purposes.**

Foreign Income. If a U.S. tax filer earns foreign income, a portion of that income can be excluded from taxable income. The excluded portion should be reported as "untaxed income" on the FAFSA, while the remainder is part of the AGI. (The amount of foreign income that was excluded should be verified using IRS Form 2555 or 2555EZ, as explained on page 31.)

If the applicant (or the applicant's parents) earned foreign income and paid taxes to a central foreign government, the income and taxes paid should be treated the same as U.S. income and taxes paid. Information from the foreign tax return would be reported on the FAFSA and for verification purposes, the foreign return would be considered equivalent to an IRS Form 1040.

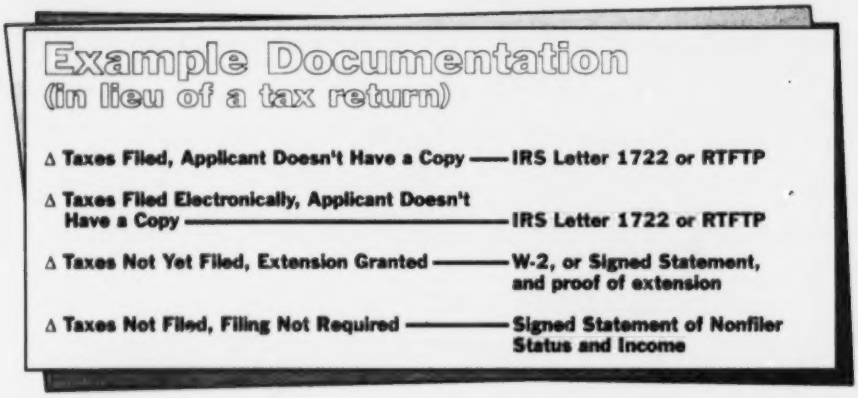
If the applicant (or the applicant's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

Foreign income should be reported in U.S. dollars

In all cases involving foreign income, **the value of the foreign income and taxes should be reported in U.S. dollars**, using the exchange rate at the time of application.

Alternative Documentation—If a Tax Return is Not Available

If copies of the necessary tax returns are not available, documents such as the following are acceptable for verification purposes, regardless of whether the tax return was filed electronically or on paper.


Example Documentation
(in lieu of a tax return)
Δ Taxes Filed, Applicant Doesn't Have a Copy — IRS Letter 1722 or RTFTP
Δ Taxes Filed Electronically, Applicant Doesn't Have a Copy — IRS Letter 1722 or RTFTP
Δ Taxes Not Yet Filed, Extension Granted — W-2, or Signed Statement, and proof of extension
Δ Taxes Not Filed, Filing Not Required — Signed Statement of Nonfiler Status and Income

IRS Letter 1722.[5] You may accept a copy of IRS Letter 1722 signed by the appropriate IRS regional official. (Stamped signatures are acceptable.) IRS Letter 1722 may be obtained at local IRS district offices (**not** at regional service centers). This document may not provide as much information about the applicant's financial status as does the tax return. For this reason, you may need to request supplemental documentation to complete verification.

Letter 1722 may not give enough information

RTFTP.[5] In locales where IRS Letter 1722 is not available, you may accept the RTFTP, which is a computerized summary of tax return information provided by IRS Regional Service Centers. The RTFTP **must be signed** by the student (and at least one parent, if the student is dependent), unless it was sent directly from the IRS to the school (as requested by the student, using Form 4506).

RTFTP may be used in lieu of Letter 1722

[5] If the IRS cannot provide a copy of the return, a Letter 1722, or an RTFTP, you may accept a copy of the IRS Form W-2 for each person whose income is listed on the application. (If a filer is self-employed or if a W-2 is otherwise unavailable, you may accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.)

Tips for Verifying AGI and Income Tax Paid

- **Check the marital status against base year income. An individual not married in the base year, but married when he or she applied, may need to report the spouse's income. Similarly, a previously married applicant who is widowed, separated, or divorced at the time of application may not need to report the former spouse's income.**
- **Check the amount of taxes paid against the amount withheld. Applicants often misreport the amount withheld as the amount paid, even though they later received a refund. Also, make sure the amount reported does not include any FICA, self-employment tax, or other taxes from the tax return.**
- **Check the filing status on the return. Married applicants (or parents) who file separately often neglect to provide both returns.**
- **Examine the applicant's income documentation. If you suspect alterations, request a statement from the IRS or the issuing employer. (If you believe a document was purposely altered to increase a student's eligibility for aid, contact the Inspector General, as discussed in Chapter 4.)**
- **In the case of divorce or separation, ask about living arrangements. Some couples claim to be divorced or separated but still live in the same household. In such cases, check with the state where the couple resides; if the state considers the arrangement a common law marriage, both incomes should be reported on the application. If not, only income of the applicant (or responsible parent) should be reported. Even if only one income is reported, both members of the couple could be counted in household size (see the household size discussion earlier in this chapter).**

Using a Joint Return to Figure Individual AGI and Taxes Paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary for verification purposes to determine the individual's income and taxes paid, using the joint return and the relevant IRS Forms W-2. (If a filer is self-employed or if a W-2 is not available, you may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Starting with the income figures from the individual's forms W-2, add the individual's income that you have extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50 percent. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50 percent of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer, certifying that the data from the joint return were accurately assessed, is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

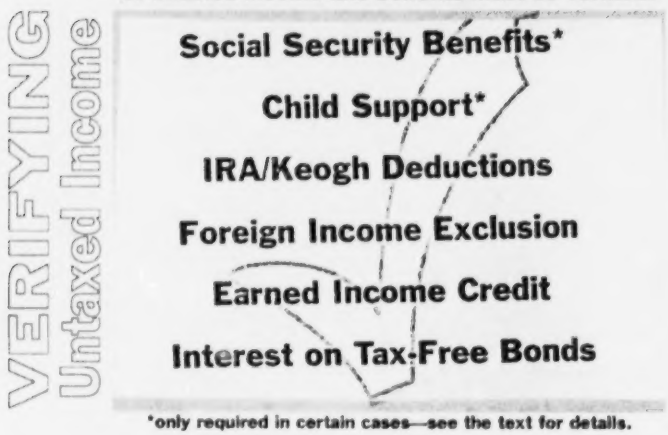
Tax Rate Schedule (preferred method). Using the IRS Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.) For example, a couple's total income was $45,000, and they claimed three exemptions (themselves and one child). The husband earned $28,000; the wife earned $17,000. They have now divorced. The woman has custody of the child; her $17,000 earnings should be adjusted to reflect the standard "head of household" deduction ($5,900) and two exemptions totaling $5,100 ($2,550 each for herself and the child). The original $17,000 minus the $5,900 standard deduction and the $5,100 exemptions results in $6,000 in taxable income. Use the tax schedules to determine how much tax she would have paid on this amount, taking into account any applicable credits (see the original return for this data). For instance, at the $45,000 income level, this woman and her husband would not have qualified for earned income credit (EIC). However, without her husband's income, she does qualify for EIC, and you should factor that into the calculation.

Proportional Distribution. Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage. Using the example above, assume the income tax paid was $4,646. The woman's income percentage of the total is 17 divided by 45, or .378 , and her estimated tax paid would be $1,756 (.378 x $4,646). If there were assets that were 100 percent in the woman's name (such as a trust fund), you should count these assets. You should also factor in the woman's EIC using the same ratios. (The proportional calculation applies to all taxable items.)

VERIFYING UNTAXED INCOME AND BENEFITS

The term "untaxed income" means any income excluded from federal income taxation under the IRS code. For an application selected for verification, you must verify up to six types of untaxed income and benefits as shown to the left. Except for Social Security benefits and child support, the required items can be verified using the tax return or alternative tax documents (see the previous section).[6] In addition to these types of untaxed income and benefits, you must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). The 1998-99 *Counselor's Handbook for Postsecondary Schools* provides a complete discussion of untaxed income and benefits that must be reported on the FAFSA.

Tax return verifies most untaxed income


For applications selected for verification, six types of untaxed income and benefits must be verified.
VERIFYING
Untaxed Income
Social Security Benefits*
Child Support*
IRA/Keogh Deductions
Foreign Income Exclusion
Earned Income Credit
Interest on Tax-Free Bonds
*only required in certain cases—see the text for details.

Examples of In-Kind Income
(not to be reported as income for SFA purposes)

- **Food Stamp Program**
- **Food Distribution Program**
- **National School Lunch and School Breakfast programs**
- **Commodity Supplemental Food Program (CSFP)**
- **Special Milk Program for Children**
- **Daycare provided by the Social Services Block Grant Programs**
- **Rollover Pensions**
- **JTPA Benefits**
- **Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act**

You are not required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis of a financial need assessment. Further, certain types of income are considered "in-kind" income and should not be reported on the FAFSA and do not have to be verified.

[6] In addition to alternative tax documents, non-filers should also submit a signed statement, as mentioned previously, that certifies their nonfiler status and lists the amounts and specific sources (by name) of untaxed income and benefits.

Verifying Untaxed Social Security Benefits

You are not required to verify Social Security benefits unless you have reason to believe that benefits were received and either were not reported or were reported incorrectly. If you believe verification is necessary, the following documentation is acceptable:

- Δ documentation from the Social Security Administration showing the total amount of benefits received by the applicant and/or the applicant's spouse (if applicable) and/or the dependent applicant's parents, and

- Δ a statement signed by the applicant (and/or spouse and/or parents) certifying that the amount of Social Security benefits reported on the application is correct.

Signed statement acceptable

A Tip for Verifying SS Benefits

Be sure the student reports the total amount (not the monthly amount) of benefits received in the base year—including Supplemental Security Income and benefits received on behalf of dependent children. Also, be sure the benefits were not included in the AGI.

Lastly, if the Social Security statement shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

Verifying Child Support Received

You must verify child support if the applicant and/or spouse and/or parents report receiving it, or if you have reason to believe it was received. This requirement does not apply if the applicant and/or spouse and/or parents report the same amount for child support that you verified in the previous award year. If you must verify this item, a completed verification worksheet is sufficient documentation. In lieu of a worksheet, you must require a statement confirming the amount of child support received for all children in the household. The applicant—and, for dependent students, the applicant's parent—*must sign* this statement. If child support is paid through a government agency, a

statement from that agency would be acceptable. If you have reason to doubt the statement provided, you *should* request at least one of the following documentation items:

- Δ a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- Δ a signed statement from the parent who provided the support showing the amount of child support provided, or
- Δ copies of the canceled checks or money order receipts.

Verifying Deductions for IRA and/or Keogh Plans

Deductible payments to IRA and/or Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 23 and 28 of IRS Form 1040, or line 15 of IRS Form 1040A.

Verifying Foreign Income Excluded from U.S. Taxation

Under the IRS code, certain U.S. citizens and residents living in foreign countries are allowed to deduct some excessive foreign living expenses or to exclude a limited amount of income received for personal services rendered abroad. Though deducted for tax purposes, this amount is considered untaxed income for federal student aid purposes. It should be reported on the FAFSA, and you must verify it. Excluded foreign income can be verified by using IRS Forms 2555 (line 43) or 2555EZ (line 18). Note that the final total for Form 2555 should **not** be reported as untaxed income, because it contains other exclusions.

Verifying Earned Income Credit (EIC)

EIC is available to certain eligible workers and must be reported and verified. The amount can be verified from line 56a of the 1040, line 29c of the 1040A, or line 8a of the 1040EZ. Note that if parents file a joint tax return and qualify for EIC but then separate or divorce before the student files the FAFSA, the parent with whom the student lived most in the last 12 months would determine his or her portion of the EIC by using the tax rate schedule or proportional distribution calculations (see page 28).

Verifying Interest on Tax-Free Bonds

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

3 COMPLETING THE VERIFICATION PROCESS

UNTIL VERIFICATION IS COMPLETE

Withholding Payment

School may withhold aid until verification is complete

If a student's application is selected for verification, he or she must complete the verification process or forfeit federal student aid eligibility. You have the authority to withhold disbursement of any federal student aid funds until the student completes the required verification. Such a policy ensures that a student's application information and eligibility determination are absolutely correct before any funds are disbursed. Adopting this policy substantially reduces the incidence of overpayments.

Making Interim Disbursements

Making an interim disbursement before verification is completed is allowable, **as long as you have no reason to believe the application information may be inaccurate**. The limitations as they apply to each program are listed below. **Be forewarned—you will be liable for an interim disbursement if verification reveals the student has received an overpayment, or if the student fails to complete verification.**

MAKING INTERIM DISBURSEMENTS

PROGRAM	OPTIONS
Federal Pell, FSEOG, Federal Perkins Loan	Make a disbursement for the applicant's first payment period
Federal Work-Study (FWS)	Employ for up to 60 consecutive days after the date the applicant enrolled*
Federal Direct Subsidized Loan, Federal Stafford Loan	Originate or certify loan application (no disbursement or delivery of funds)

*FWS summer employment (up to 60 consecutive days) is allowable and constitutes an interim disbursement.

The Federal Pell Grant, Federal Perkins Loan, and FSEOG Programs. For the applicant's first payment period, you may make one disbursement from each of these programs for which the applicant is eligible. If the applicant were eligible for aid from all three programs, for example, you could make three disbursements (one from each program), as long as they all fall within the applicant's first payment period. Note that if you make an interim Pell disbursement, you must designate the "W" verification code (Without Documentation) when reporting the payment to ED. (See the "Verification Status Codes" section in this chapter.)

The Federal Work-Study (FWS) Program. Before completing verification, you may employ an applicant under FWS for up to 60 *consecutive* days after the applicant enrolled (or in summer employment for up to 60 days), provided you have no conflicting documentation on the applicant. After 60 days, if verification has not been completed, you must cease employing the student under FWS. If you later discover that an overaward exists, you should attempt to adjust the student's other aid. Otherwise, you must reimburse the FWS Program from school funds. **Except in the case of proven student fraud, a student may not be required to repay FWS wages earned.** (See Chapter 4 of this guide, "Overpayments, Overawards, Referrals, and Suspected Fraud.")

FWS overaward

The Direct Loan and FFEL Programs. If you have no conflicting documentation on the student in question, you may originate a Direct Stafford/Ford (Subsidized) Loan or certify a Federal Stafford Loan application for a student who has not yet completed the required verification process. **You may not, however, disburse a Direct Subsidized Loan or deliver Federal Stafford Loan proceeds to the borrower.**[7]

Generally, you may not hold any Federal Stafford Loan proceeds received from a lender: (1) for more than 10 business days after receiving the funds via EFT and master check on or after July 1, 1997 but before July 1, 1999; (2) for more than 3 business days after receiving the funds via EFT and master check on or after July 1, 1999; and (3) for more than 30 days after receiving the funds if the lender provides those funds by a check payable to the borrower or copayable to the borrower and institution. If the applicant does not complete the required

Time limits for holding Stafford Loan proceeds

[7]Remember, verification is not required for unsubsidized loans; you may originate, certify, and disburse unsubsidized loan funds, regardless of a student's verification status.

verification process within these time limits, you *must* return those loan proceeds to the lender. To handle excess Direct Subsidized Loan funds, schools must follow the procedures in the cash management regulations and in Chapters 6 and 7 of the *Direct Loan School Guide*.

Loan overawards

If you originate a Direct Subsidized Loan or certify a Federal Stafford Loan application before verification is completed, you may later discover that the loan amount exceeds the student's need. For Stafford Loans, you may request the lender to reduce or cancel the loan, and you also have the option of reducing or canceling aid over which the school has control. Direct Loan schools must adjust disbursements according to the procedures described in Chapter 6 of the *Direct Loan School Guide*.

IF THE STUDENT FAILS TO PROVIDE DOCUMENTATION

Verification deadline

A Federal Pell Grant applicant selected for verification must complete the process no later than 60 days after the last day of enrollment[8] or August 31, 1999, whichever is earlier. Campus-based, Direct Subsidized Loan, and Federal Stafford Loan applicants must complete verification within the deadlines the school establishes. Factors constituting completed verification and consequences of a student's failure to complete verification vary among the federal aid programs.

Defining "Completed" Verification

For the Federal Pell Grant Program, the student has completed verification when he or she has corrected the data or has shown, as required, that the application data are correct. In addition to all verifying documentation, the school must also have on file the final and valid federal output document, showing the official EFC.

For the campus-based, Direct Subsidized Loan, and Federal Stafford Loan programs, the student has completed verification when he or she has submitted all requested documentation to the school. The school must also have on file an output document that shows the student's application data were processed through the CPS at least once. (The output document need not be final or signed by the student).

[8]As this publication went to print, the Department planned to extend this deadline period from 60 days to 90 days. When finalized, this change will be published in the *Federal Register* and will also be announced on the Department's Information for Financial Aid Professionals (IFAP) website <ifap.ed.gov>.

The Consequences of Failing to Complete Verification

Under the Federal Pell Grant Program, if an applicant does not complete verification by the established deadline, he or she forfeits the Federal Pell Grant for the award year; the school must repay to the Department any funds already disbursed.

If verification is not completed

Under the campus-based, Direct Loan, and FFEL programs, if an applicant fails to provide the required documentation by the established deadline, you *must not*

- **disburse** additional FSEOG or Federal Perkins Loan funds to the applicant (funds already disbursed must be repaid by the school),
- **continue the applicant's employment** in an FWS job, 34 CFR 668.60(b)
- **originate** a Direct Subsidized Loan or **certify** a Federal Stafford Loan application for the applicant (you may already have done so before verification was completed, but you may *not* do so after the verification deadline), or
- **disburse** Direct Subsidized Loan proceeds or **deliver** Federal Stafford Loan proceeds to the applicant.[9]

[9]If a Direct Loan School has requested or drawn down funds in anticipation of completing verification by the established deadline, the school should follow the procedures in the cash management regulations (§668.166) and in Chapters 6 and 7 of the *Direct Loan School Guide*.

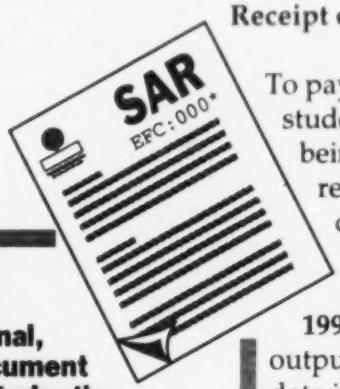
IF COMPLETED VERIFICATION REVEALS NO ERRORS

When you have obtained all necessary verification documents from the applicant, you should compare that documentation to the information originally reported on the application. If the verification process shows that all the student's information is correct, and there are no outstanding issues or conflicting information, you may award aid in the following ways according to the student's eligibility. You may

- **disburse** Federal Pell, FSEOG, and Federal Perkins Loan funds;
- **employ** students under the FWS Program; and
- **originate** Direct Subsidized Loans and **certify** Federal Stafford Loan applications, and disburse/deliver loan proceeds.

Receipt of the Output Document

Output document deadline



DEADLINE

Normally, to pay a Pell Grant, the school must receive the student's final, valid federal output document by the last day of the student's enrollment, or by August 31, 1999, whichever is earlier. This deadline is extended for students being verified; the valid output document must be received at the school within 60 days after the last day of the student's enrollment, or by August 31, 1999, whichever is earlier. (See footnote.)

To pay Federal Pell Grant funds to a student whose application is not being verified, the school must receive a final and valid output document (ISIR or SAR) **by the student's last day of enrollment or by August 31, 1999,** whichever is earlier. An output document received after that date is *not* eligible for payment.

If a student's application is being verified, you may pay on any final and valid output document received within **60 days after the student's last day of enrollment,**[10] **or by August 31, 1999,** whichever is earlier.

[10]As this publication went to print, the Department planned to extend this deadline period from 60 days to 90 days. When finalized, this change will be published in the *Federal Register* and will also be announced on the Department's Information for Financial Aid Professionals (IFAP) website <ifap.ed.gov>.

For a student whose application is being verified, if you receive a final and valid federal output document after the Pell deadline but within the verification extension deadline, you must pay based on the *higher* EFC calculated for that student. For example, assume a student's application was selected for verification and that student's original EFC was 850, but after verification and correction of the application data, the student's reprocessed EFC is 20. If the reprocessed EFC was received within the Pell deadline, you may use it for payment and it will result in a higher Federal Pell Grant award. However, if the reprocessed EFC is received after the Pell deadline, you *must* pay based on the original, higher EFC. (This rule's intent is to ensure that students who take advantage of the verification extension deadline do not get more aid by doing so; therefore, it is in the student's best interest to complete verification as soon as possible.)

Verification extension cannot result in lower EFC

VERIFICATION STATUS CODES

When you disburse a Federal Pell Grant award, you must report the student's verification status when you report the payment to ED. Proper reporting shows that the verification procedures have been followed and allows ED to gather information on the impact and effectiveness of the verification requirements. The codes for reporting verification status are discussed in detail below.

Reporting verification status

Note that this reporting requirement applies even if the student's application was not selected for verification. (See Chapter 4 of the 1998-99 *Federal Student Financial Assistance Handbook* for more information.)

N—Not Selected by the CPS

The CPS did not select the applicant, and you did not verify any items. (If verification wasn't required, but you verified some of the student's information anyway, you would not use the "N" code. Instead, you would use one of the other codes, as appropriate.)

A—Accurate

Verification was completed, and the most recent data record is accurate.

Award canceled if "W" code remains at end of processing

W—Without Documentation

Verification is required, but the applicant has not yet completed the process. A first disbursement has been made. Verification *must* be completed before the next disbursement may be made, and you must enter a different verification code on that student's electronic payment data record to reflect the verification status under which the student was finally paid.

If a student's Federal Pell data record still shows a "W" code after the Pell verification deadline has passed, that student's award eligibility will be dropped, or "zeroed out," from the Federal Pell payment system. The school will not receive Pell funds for the student and must repay any funds already disbursed in accordance with the overpayment procedures detailed in Chapter 4 of this guide.

T—Tolerance

Use the "T" code when tolerance or exclusion applies

Some data items were found to be incorrect. However, the discrepancy was within the tolerance, and the student was paid based on the uncorrected data. (See the "Tolerance Option Instead of Correcting" section later in this chapter.) This code also applies to applicants who are exempt from verification under one of the allowable exclusions. (See the "Verification Exclusions" section of Chapter 1 of this guide.)

C—Calculated

The application information was verified and found to be incorrect. You recalculated the EFC and determined that the recalculated award would be the same or higher than the original award. You paid based on the original EFC, without requiring the data record to be corrected and reprocessed. If your calculation is wrong, you will be liable for any overpayment. (If you choose to pay the higher award according to the recalculated EFC, the data record *must* be corrected and reprocessed.)

R—Reprocessed

The application information was verified and found to be incorrect; the data record was corrected and reprocessed for that reason. You paid the applicant based on the reprocessed application data.

If a student makes additional errors in correcting and the reprocessed output document is still not valid for payment, you must have the student make corrections again, and the data record must again be reprocessed. The "R" code still applies. (If the additional errors fall within tolerance, the student may be paid without the application data being reprocessed again. In this case, use the "T" code.)

You should also use an "R" code if the applicant voluntarily corrected the data record and had it reprocessed without being required to. An "R" code applies only to application information that has been corrected and reprocessed. You should never use the "R" code on a student's original data record (also called an 01 transaction).

Don't use "R" code for an 01 transaction

S—Selected, Not Verified

The application was selected for verification but was not verified either because you have already verified at least 30 percent of your total applications for federal student assistance or because you are participating in the QA Program (see page 2).

IF VERIFICATION REVEALS INCORRECT OR OUTDATED INFORMATION

In completing the verification process, you will likely discover some errors or inconsistencies in the application information. Depending on the nature of these discrepancies, you may require the applicant to update or correct the data record.

Corrections vs. Updates

When a student applies for federal student aid, he or she provides a "snapshot" representation of the family's financial strength as of the date the application is signed. If the information on that application is inconsistent with the documentation the student provides, the student either reported some information incorrectly, or the information has changed since the application was completed.[11]

If the information was reported incorrectly, the student must *correct* the data unless the errors are within the predetermined tolerance level (see the next section).

If the information was correct when the application was filed but has since changed, the student is only required, and allowed, to *update* the data under certain circumstances. Updating is discussed later in this chapter.

[11]It is possible but unlikely that the applicant correctly reported the information, but that a data entry error occurred during processing. If such an error occurred, the applicant can call the Federal Student Aid Information Center (FSAIC) toll-free at 1-800-433-3243 (1-800-4 FED AID) to request a review of his or her file. For further information, see the 1998-99 *Counselor's Handbook for Postsecondary Schools.*

Applies to all students, regardless of verification selection

The procedures for correcting and updating apply to *all* federal student aid applicants, not only to those whose applications are selected for verification. However, if a student's application is selected for verification, you must completely verify the required data items *before* correcting or updating.

TOLERANCE OPTION INSTEAD OF CORRECTING

Verification can sometimes uncover errors in application data that are so minor that the applicant's eligibility for aid will not be significantly affected. Therefore, ED has established a tolerance option for students completing verification.

If the original application contains any errors in nondollar items, such as household size, you *may not* use the tolerance option. The student must follow the applicable correction procedures detailed in the next section. However, if there are *only* dollar amount errors, and all dollar errors are within the tolerance limit, you may award the student's aid based on the application data as is, without requiring that the EFC be recalculated. Note that if you do not wish to perform the calculations needed to determine whether the errors fall within the tolerance, you may simply have the student submit the corrected data for reprocessing (see the next section).

For Example

The application reported an AGI of $2,500, $300 in Untaxed Income, and $300 U.S. Income Tax Paid. Verification reveals that the AGI is $3,000 and $400 in U.S. Income Tax was paid. (Untaxed Income was reported correctly.)

ORIGINAL:		CORRECTED:	
AGI	$2,500	AGI	$3,000
Untaxed Income	300	Untaxed Income	300
Taxes Paid	300	Taxes Paid	400
Total A	$2,500	Total A	$2,900

NET DIFFERENCE = 2,500 - 2,900 = 400

Because the net difference is within tolerance, you may award the student's aid based on the current data record, without requiring correction or recalculation of the EFC.

If you choose to calculate the total dollar error in order to determine if the tolerance applies, first add the original (uncorrected) AGI[12] and untaxed income amounts. From that amount, subtract the original U.S. income tax paid to get Total A. Then, add the *correct* AGI and untaxed income amounts and subtract from that total the *correct* U.S. income tax paid to get

[12] If the applicant (or spouse or parents, if applicable) did not file and isn't (aren't) required to file a federal tax return, you may use income earned from work in lieu of an AGI.

Total B. If the difference between Totals A and B is $400 or less (and there are *only* dollar amount errors), the errors are within tolerance; recalculation is not required. In such a case, you would use verification status code "T" when reporting the Pell Grant payment. (See the "Verification Status Codes" section earlier in this chapter.)

MAKING CORRECTIONS

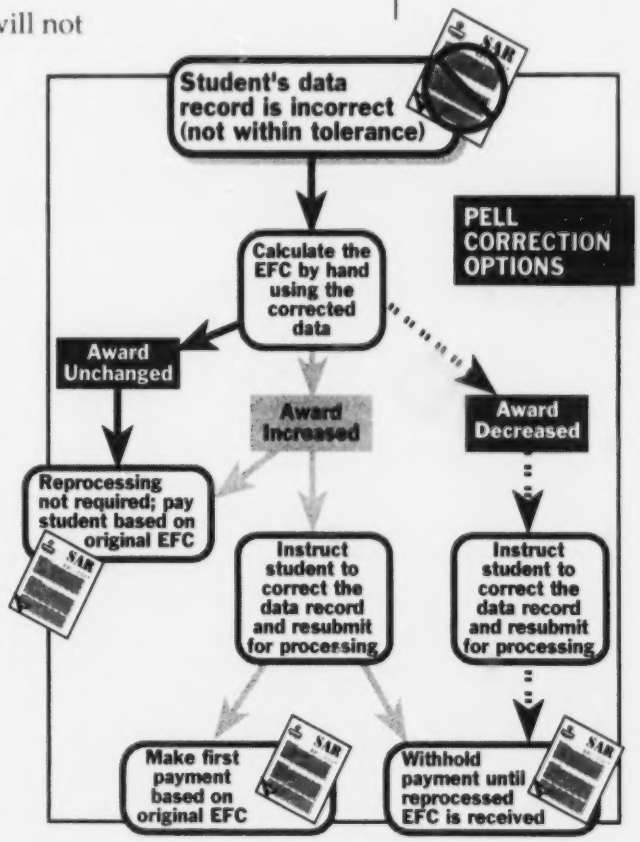
If a student's data need correcting, you may have the student submit the data for reprocessing without doing anything yourself. This section explains your options **if you want to recalculate the student's EFC** rather than *automatically* have the student submit the data for reprocessing.

Correcting for the Federal Pell Grant Program

If you have determined the errors either will not change or will increase the scheduled award, you may pay the student based on the original EFC; reprocessing is not required.

If the errors will increase the award, and you **wish to pay** the student based on the increase, the data must be corrected and reprocessed. Corrections are made either on the ISIR or the SAR. You may either withhold payment until the reprocessed EFC is received or make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed EFC.

If the student's scheduled award will decrease, the data must be corrected and reprocessed, and you must withhold payment until you receive the reprocessed EFC. (For details on first payments and correction procedures, see the 1998-99 *Counselor's Handbook for Postsecondary Schools.)*


Student's data record is incorrect (not within tolerance)
PELL CORRECTION OPTIONS
Calculate the EFC by hand using the corrected data
Award Unchanged
Award Increased
Award Decreased
Reprocessing not required; pay student based on original EFC
Instruct student to correct the data record and resubmit for processing
Instruct student to correct the data record and resubmit for processing
Make first payment based on original EFC
Withhold payment until reprocessed EFC is received
SAR

Submitting a Correction

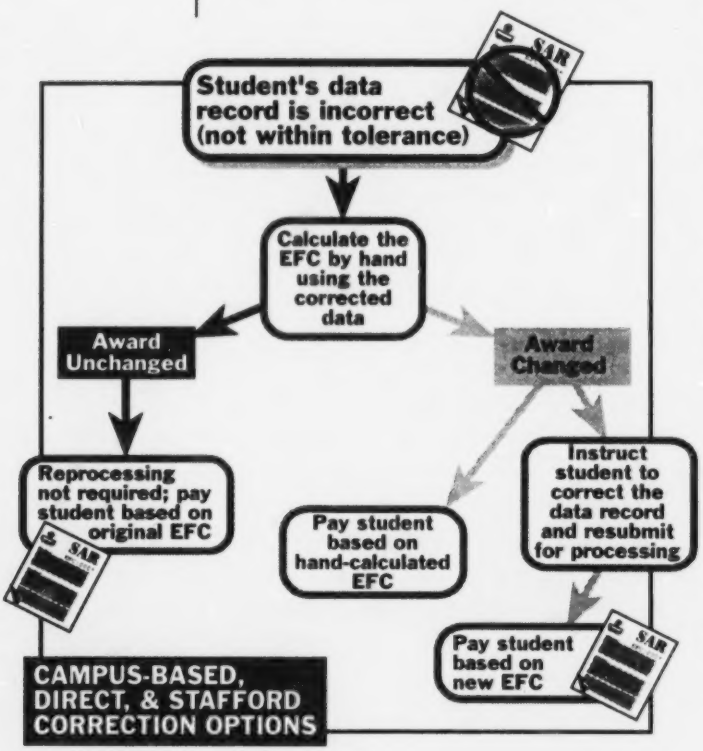
DEADLINE

Processor must receive students' corrected data by August 16, 1999

To receive a Federal Pell Grant, students must correct their application data on the ISIR or SAR, through the CPS. The CPS must receive all corrections, whether electronically or on paper, by **August 16, 1999;** no corrections will be accepted after this date.[13]

Correcting for Campus-Based, Direct Loan, and FFEL Programs

If a campus-based, Direct Subsidized Loan, or Federal Stafford Loan applicant's data are incorrect and the tolerance does not apply, you may choose to recalculate the student's EFC or you may require the student to correct the data record and submit it for reprocessing to the CPS. If your recalculation is incorrect, you will be liable for any resulting overpayment. If recalculation shows the EFC would not change, you may award campus-based aid or federal student loans based on the original EFC.

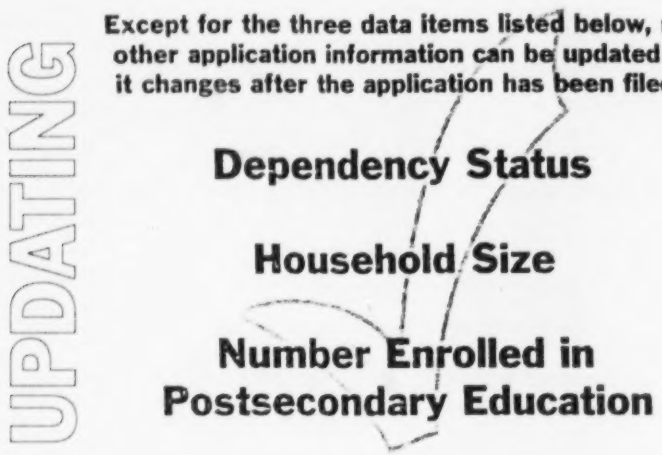

Student's data record is incorrect (not within tolerance)
SAR
Calculate the EFC by hand using the corrected data
Award Unchanged
Award Changed
Reprocessing not required; pay student based on original EFC
SAR
Pay student based on hand-calculated EFC
Instruct student to correct the data record and resubmit for processing
Pay student based on new EFC
SAR
CAMPUS-BASED, DIRECT, & STAFFORD CORRECTION OPTIONS

If recalculation changes the EFC, you may award campus-based aid or federal student loans based on your recalculation, but you may be liable for any overpayment that occurs because you incorrectly recalculated the applicant's EFC. As already mentioned, if you choose not to recalculate the EFC, you may have the applicant correct the data record and submit it for reprocessing to the CPS.

[13]As this publication went to print, the Department was exploring the possibility of extending the deadline for electronic corrections. (The deadline for submitting corrections on paper would remain the same.) When finalized, any deadline changes will be published in the Federal Register and will be announced on the Department's Information for Financial Aid Professionals (IFAP) website <ifap.ed.gov>.

UPDATING

As shown here, a student may be able to update three application data items if those items change *after* the application is filed and if the changes do not result from a change in the applicant's marital status. Other information that has changed since the original application was filed *may not* be updated.


UPDATING
Except for the three data items listed below, no other application information can be updated if it changes after the application has been filed.
Dependency Status
Household Size
Number Enrolled in Postsecondary Education

Two of the three items listed (household size and number enrolled in postsecondary education) *must* be updated if the applicant is selected for verification by either the CPS or the school. If the applicant is *not selected* for verification, household size and number in postsecondary education *cannot be updated*. The chart below details the specific updating requirements. Dependency status, household size, and number in postsecondary education can be updated *directly* using the ISIR or SAR.

Use the ISIR or SAR for updating

	Dependency Status	Household Size and Number Enrolled
Selected	Applicants must update this item if it changes at any time during the award year*	Applicants must update these items to be correct at the time of verification*
Not Selected		Applicants cannot update these items

*The applicant cannot update household size, number enrolled, or dependency status if the items change as a result of a change in the applicant's marital status.

Updating Dependency Status

Exceptions to required updating

As noted on the previous chart, an applicant *must* update his or her dependency status if it changes at any time during the award year, with two major exceptions:

- An applicant cannot update his or her dependency status if it changes as the result of a change in the applicant's marital status.[14]

- Once you have originated a Direct Loan or certified a Federal Stafford Loan, the Direct Loan origination record and the Federal Stafford Loan application cannot be changed to reflect a change in dependency status.

Reprocessing vs. hand calculation

For Pell Grant recipients, dependency status updates must be done through reprocessing, either by using the ISIR or SAR. Reprocessing is not required for the campus-based programs. Instead, you may recalculate the student's EFC based on the updated dependency status and disburse aid accordingly. You cannot recalculate an EFC for a *certified* Federal Stafford Loan application or an *existing* Direct Loan origination record, but you *can* recalculate the EFC for *additional* loans if the student qualifies. You may be liable for any overpayment that results from having incorrectly recalculated the EFC.

Updating Household Size and Number Enrolled in Postsecondary Education

For applicants not selected for verification, household size or number enrolled in postsecondary education *cannot* be updated. For applicants selected for verification, these items must be updated to be correct at the time of verification (unless the change is a result of a change in the applicant's marital status, in which case updating is not permitted.)

[14] In certain cases, professional judgment may apply. However, you may not override a student's dependency status until *after* you have resolved any conflicting information and completed any required verification. For more on professional judgment, see the 1998-99 *Counselor's Handbook for Postsecondary Schools.*

The procedures for updating differ depending on the type of aid the applicant will receive:

For the Federal Pell Grant Program. If the applicant is selected for verification and household size or number enrolled in postsecondary education has changed, you have some choices in handling this new information:

- If the Pell award will either increase or remain the same, corrections and reprocessing are *not required.* If the award will increase and you wish to pay based on that increase, reprocessing is required. The appropriate update(s) must be made using the ISIR or SAR. You may either withhold payment until you receive the reprocessed output document or make a first payment based on the original EFC, adjusting the second payment on receipt of the reprocessed EFC. (If you choose to make the first payment and the reprocessed EFC shows that your calculation was incorrect, you may be liable for any resulting overpayment.)

- If the scheduled award will decrease, reprocessing is required; you must withhold payment until you receive the reprocessed EFC.

For the campus-based, Direct Loan, and FFEL Programs. When a student selected for verification updates household size and number enrolled in postsecondary education, you may recalculate the student's EFC using the updated data. (However, you may choose not to recalculate, instead requiring the student to update the data on the ISIR or SAR and have his or her application data reprocessed.)

If you award campus-based, Direct Subsidized Loan, or Federal Stafford Loan funds based on your recalculation, **you may be liable for any overpayment** that results from your having incorrectly recalculated the EFC.

Using Updated Information to Award Aid

If you made interim disbursements to a student based on information that must now be updated, you must do the following:

- Use the updated information to determine the correct award.

- Adjust prior or future disbursements to ensure the correct award.

4

OVERPAYMENTS, OVERAWARDS, REFERRALS, AND SUSPECTED FRAUD

This chapter discusses the rules and procedures for recovering funds from overpayment, the procedure for referring certain overpayment cases to ED, and the procedure for reporting suspected fraud and abuse.

OVERPAYMENTS AND OVERAWARDS

The overpayment and overaward procedures discussed here apply to all students regardless of whether their applications have been selected for verification.

The Federal Pell Grant, FSEOG, and Federal Perkins Loan Programs

If you discover that an applicant received more than the amount for which he or she was eligible under the Federal Pell Grant, FSEOG,[15] or Federal Perkins Loan[15] programs, you should determine whether the overpayment resulted from a student error or a school error. Then, you should try to eliminate the overpayment by adjusting subsequent disbursements in the award year. If this is not possible and if the overpayment is a result of **student** error, you should attempt to have the student repay the overpayment amount.

Federal Pell Grant, FSEOG, and Federal Perkins Overpayment by School Error. The school is liable for overpayments that result from school error, as in the following examples:

- The school made an **interim disbursement** before verification was complete.

[15]For all campus-based programs, if the student's total resources exceed his or her need by no more than $300 in excess of the amount for which he or she was eligible, this is not considered an overpayment as long as it resulted from additional resources becoming available. If it results from school error (rather than additional resources becoming available), it is an overpayment and must be dealt with as discussed in this chapter. For more information, see Chapter 5 of the 1998-99 *Federal Student Financial Aid Handbook.*

- The school had **conflicting documentation** when the award was made (regardless of when the conflict was discovered). For example, the bursar's office could have information of which you were not aware; nevertheless, your school had conflicting documentation and is responsible for any resulting overpayments.

- The school made an **incorrect calculation** of a student's eligibility for aid.

If the overpayment is the school's responsibility, you may continue to make Federal Pell Grant, FSEOG, and Federal Perkins Loan payments to the student if the overpayment can be resolved through one of the following options:

- The student **repays** the overpayment in full.

- The student **makes repayment arrangements** satisfactory to your school.

- You can eliminate the overpayment by **adjusting** subsequent disbursements.

School must reimburse program account within 60 days if other recovery methods fail

If you cannot recover the overpayment through these methods, you must reimburse the appropriate program account from your own funds within 60 days following the applicant's last day of enrollment *or* by the last day of the award year, whichever comes first. (Once the school satisfies the overpayment, the student regains eligibility.)

Federal Pell, FSEOG, and Federal Perkins Overpayment by Student Error. If the overpayment occurred as a result of student error, you may continue to make Federal Pell Grant, FSEOG, or Federal Perkins Loan payments to the student if you can eliminate the overpayment by adjusting subsequent disbursements in the award year. If you cannot do this, you *cannot* make any further Federal Pell Grant, FSEOG, or Federal Perkins payments to the student until he or she completely repays the overpayment to your school or makes repayment arrangements satisfactory to your school. If the student will not agree to repay, you are not liable, but you must make a reasonable effort to contact the student and collect the repayment. If your reasonable effort fails, you may, in certain cases, refer the debt to ED (see page 51).

The Federal Work-Study (FWS) Program

You may not award or disburse aid from a campus-based program if that aid, when combined with all other resources, would exceed the student's need. After packaging, you may find out later (through verification, for instance) that the student received additional resources that cause his or her financial aid package to exceed his or her need. In such a case, an adjustment may be required.

The $300 threshold also applies to Stafford or Direct Loans included with FWS in aid package

An overaward threshold of $300 exists for all campus-based programs. If you learn, after packaging, that a student's aid package exceeds his or her need by less than $300, you should cease employing the student under need-based FWS funds; no further action is required. (If a Federal or Direct Stafford Loan is **included with FWS** in a student's financial aid package, the $300 threshold applies to that loan. That is, you would not have to adjust any loan amounts.) This threshold does not allow you to deliberately award campus-based aid that, in combination with other resources, exceeds the student's need.

Cannot require student to repay FWS wages earned, except in case of proven fraud

If the student's FWS earnings have already exceeded his or her eligibility by more than $300, you must try to eliminate the overaward by adjusting or canceling the student's other federal aid (other than Pell). (For more information, see Chapter 5 of the 1998-99 *Federal Student Financial Aid Handbook*.) If you cannot eliminate the overaward, you must cease employing the student under need-based FWS funds, and must reimburse the FWS program from the school's funds. (If the student also receives FSEOG funds or other funds under institutional control, you may attempt to have the student repay through one of those programs.) **You cannot require a student to repay wages earned, except in the case of proven student fraud.**

The Direct Loan and FFEL Programs

Procedures apply only if application is *not* being verified

As explained in Chapter 3 of this guide, you may not disburse Direct Subsidized Loan funds or deliver Federal Stafford Loan proceeds to a student who has not completed the verification process. Therefore, an overpayment cannot occur for a student being verified. However, you may discover through verification that the loan amount for which a student is eligible has decreased. This is an overaward, and you need to adjust the student's aid package.

If you discover that a student's Direct Subsidized Loan will exceed need, you must adjust the amount to be disbursed according to the procedures described in Chapter 6 of the *Direct Loan School Guide*.

If you certify a Federal Stafford Loan application for an amount that exceeds the student's need, you may need to adjust the student's aid to eliminate the overaward. (Remember that if a Direct Subsidized Loan or Federal Stafford Loan is included with FWS in a student's financial aid package, the $300 threshold applies to that loan.)

Loan has been certified but school has not received funds. You may have the lender cancel or reduce the loan. You also have the option of reducing or canceling aid over which your school has control.

Funds received but none disbursed. You have several choices in this situation:

- You may attempt to reduce or eliminate the overaward by using the student's Federal PLUS Loan or unsubsidized Federal Stafford Loan to replace the family's EFC. However, you must repay subsidized and unsubsidized Federal Stafford Loan funds to the lender to eliminate the overaward *before* you may adjust or cancel a student's undisbursed campus-based aid.

- You may deliver the first disbursement to the student if you can eliminate the overaward by reducing or canceling subsequent loan disbursements.

- If the student is ineligible for a portion of the first loan disbursement, you can return the proceeds to the lender or escrow agent and request a new disbursement for the correct amount, or you can disburse the proper amount to the student and refund the excess to the lender or agent. You must notify the lender or agent in writing of the reason for any returned funds.

- If the student is ineligible for the *entire* loan, you must return the proceeds to the lender. You must notify the lender or agent in writing of the reason for any returned funds.

REFERRAL OF OVERPAYMENT CASES

Referrals to ED must be at least $25

If, during the verification process, you discover overpayment situations, you should make every reasonable effort to collect the overpayment. (In the case of an FSEOG overpayment for which the school is not liable, you must promptly attempt to recover the overpayment by sending a written notice requesting payment in full to the student.) If you are unable to collect a Federal Pell overpayment (*not* the result of institutional error), you may refer the overpayment to ED if the amount owed is at least $25. You may also refer an FSEOG overpayment to ED as long as the **federal share** of that overpayment is at least $25. If you choose not to refer such Federal Pell or FSEOG overpayment cases to ED, you are liable for the overpayments and must repay the appropriate program funds from school funds. If the federal share of an FSEOG overpayment is less than $25, and you have been unsuccessful in collecting from the student, no further action on your part is required.

Note that if a student claims that a school's FSEOG overpayment determination is erroneous, the school must consider any information the student provides and determine whether the objection is warranted *before* referring the case to ED.

Overpayment referral format

To refer a Pell or FSEOG overpayment case to ED, you must provide all information necessary for collection on the case. Each referral must be **typed** and submitted on your **institutional letterhead** and should follow the format given on page 54.[16]

Remember that even if the amount owed is less than $25, it is still an overpayment, and the student will continue to be ineligible for federal student aid funds at any school until the amount is repaid or until satisfactory repayment arrangements are made. For as long as you feel is reasonable, you should use all available means to recover the overpayment from the student, in accordance with the school's standard policies and procedures.

[16] Soon, schools will have the option of electronically reporting overpayments through the National Student Loan Data System (NSLDS). Note that electronic reporting will not replace the referral process described in this chapter. Schools must continue to refer overpayments to the Department as usual.

Institutional Responsibility

After referring an overpayment case, you cannot make further federal student aid payments to the student until you've received further notice from ED. In addition, you may be required to provide any relevant documentation in your possession.

You may, at your option, withhold **academic** transcripts from students who owe an overpayment, but you must release **financial aid** transcripts or financial aid history information at the request of the student or another institution. You should notify such institutions that the student owes an overpayment.

Cannot withhold financial aid transcripts

Once you've received confirmation from ED that the referred account has been accepted, you have no responsibility in the collection of the debt unless the student contacts you to make repayment. If a student whose overpayment case has been accepted by ED notifies you that he or she wishes to make repayment, you should accept payment on behalf of ED and forward the payment to the address at the right. Please put the student's name and Social Security Number (SSN) on the check. If you send a check to cover more than one student, please list each student's name, each SSN, and each payment amount.

U.S. Department of Education
Debt Collection Service
P.O. Box 4169
Greenville, Texas 75403-4169

DCS Collections (for account status)
1-800-621-3115

If the student whose overpayment case has been accepted by ED wishes to establish a repayment schedule, the student should contact ED's Debt Collection Service at 1-800-621-3115.

Departmental Responsibility

Upon receipt of an overpayment referral, ED will determine if sufficient information has been provided to initiate collection activity; any referral lacking sufficient information will be returned to the school. If the referral information is complete, you will receive a letter confirming receipt and acceptance of the overpayment referral.

ED will then initiate collection activity (letters and telephone contacts) to try and establish a repayment schedule or to secure payment in full. Also, the student's record will become part of the databases matched against incoming student aid applications. Any future CPS

transactions for the student will be flagged during processing; a comment will appear on the output document, explaining the overpayment and instructing the school and the student how to resolve the matter.

REFERRAL OF FRAUD CASES

If you suspect an applicant, employee, or other individual has misreported information and/or altered documentation to increase his or her student aid eligibility to fraudulently obtain federal funds, you should report your suspicions (and provide any evidence) to the Office of Inspector General (OIG) or to local law enforcement officials. Telephone numbers for the eight regional offices of the Inspector General are listed below:

Boston, MA	(617) 223-9301
New York, NY	(212) 264-4104
Philadelphia, PA	(215) 596-1021
Atlanta, GA	(404) 331-2087
Chicago, IL	(312) 353-7891
Dallas, TX	(903) 769-3361
Denver, CO	(303) 844-4517
San Francisco, CA	(415) 556-6726

OIG HOTLINE 1-800-MISUSED

Signs of Student Aid Fraud

- **Δ forged, falsified, or counterfeit documents**
- **Δ irregular signatures and certifications**
- **Δ false or fictitious names, addresses, and SSNs**
- **Δ consistently misreported information**
- **Δ false claims of dependency and/or citizenship status**
- **Δ offered and/or paid "kickbacks" to school staff**
- **Δ unreported or misreported receipt of student aid**

OVERPAYMENT REFERRAL FORMAT

In referring overpayment accounts to ED, the institution must provide all the information listed. Also, each referral *must be* typed and submitted on institutional letterhead.

PART 1. Student Information

Name: Social Security Number(s): Date of Birth:
Address(es): Telephone Number(s):

PART 2. Parent/Spouse Information

Name(s): Social Security Number(s):
Address(es): Telephone Number(s):

PART 3. Disbursements and Repayments

1. Name of aid program: _____
2. Total amounts disbursed: $_____
   a. Amount credited to tuition account: $_____
   b. Amount disbursed in hand: $_____
3. Dates of disbursement(s): _____ _____
4. Costs incurred by student: $_____
5. Amount determined to be owed: $_____
6. Total amount of debt repaid to institution: $_____
7. Date of last payment to institution, if any: _____
8. Total amount being referred: $_____
   (For FSEOG, provide federal share amount only)

PART 4. Other Required Information

Award Year of Overpayment:
Student Education Costs:
Name and Telephone Number of Institutional Contact:
Pell Identification Number of Institution:

PART 5. Detailed Explanation of Reason for Overpayment

Provide a detailed explanation of the reason for the overpayment. Each account reported to ED *must* contain this explanation.

FORWARD THE REFERRAL INFORMATION TO:

U.S. Department of Education
Student Financial Assistance Programs
c/o Student Loan Processing Center
Program Overpayments
P.O. Box 4157
Greenville, Texas 75403

5 REQUIRED POLICIES AND PROCEDURES

34 CFR 668.53

This chapter reviews the minimally required verification policies and procedures your school must have. In addition to what is required, you should institute any other means you feel necessary to ensure that verification is completed efficiently and accurately.

WRITTEN POLICIES

You must have written policies on the following verification issues:

- Δ **deadlines** for applicants to submit documentation and **consequences** of the failure to meet those deadlines,
- Δ **method of notifying** applicants of award changes resulting from verification,
- Δ required **correction procedures** for applicants,
- Δ **means of publicizing** requirements and procedures, and
- Δ **standard procedures** for referring overpayment cases to ED.

INFORMATION FOR THE APPLICANT

Additionally, you must give each applicant a written account of the following information:

- **documentation requirements**—a clear explanation of the documentation needed to satisfy the verification requirements;
- **applicant responsibilities**—an explanation of the applicant's responsibilities with respect to the verification requirements, including the deadlines for completing any actions required, the consequences of missing such deadlines, and required correction procedures; and
- **notification methods**—the means by which you will notify an applicant if his or her award changes as a result of verification, and the time frame of such notification.

SYSTEM FOR IDENTIFYING INCONSISTENCIES

As stated in Chapter 1 of this guide, "Basic Requirements," you must develop an adequate system for identifying and resolving conflicting or inconsistent information related to your students' applications for federal student aid, regardless of the sources of that information. You are responsible for reconciling all information received. **The requirement to resolve conflicting data is distinct from the verification requirements and procedures, and supersedes all verification rules.**

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